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International Meeting to Review the Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States

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Comprehensive review of the implementation of the Programme of Action for the Sustainable Development of Small Island Developing States

Summaries of panel discussions

Note by the Secretariat

Addendum

Panel two
Special challenges facing small island developing States in trade and economic development
(Tuesday, 11 January 2005, 10 a.m.-1 p.m.)

Summary of discussion prepared by the Chairperson

1. Panel two addressed the topic of the special challenges facing small island developing States in trade and economic development. The panel was chaired by Jaya Krishna Cuttaree, Minister of Foreign Affairs, International Trade and Regional Cooperation of Mauritius. Habib Ouane, Director of the Special Programme on the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, United Nations Conference on Trade and Development (UNCTAD), was the moderator. The five panellists were Anthony Severin, Ambassador Plenipotentiary and Extraordinary in the Office of the Prime Minister of Saint Lucia and Saint Lucia's Ambassador to the Caribbean Community; Mohamed Latheef, Permanent Representative of Maldives to the United Nations; Hans-Peter Werner, Counsellor, Development Division of the World Trade Organization (WTO); Sivaramen Palayathan, Trade Adviser, Permanent Mission of Mauritius to WTO; and Deep Ford, Senior Trade Adviser, Commodities and Trade Division of the Food and Agriculture Organization of the United Nations.

2. The panellists' presentations were followed by an interactive debate. The panel's recommendations are being presented to the high-level round tables to stimulate the intergovernmental dialogue on concrete measures to advance the small island developing States agenda, and will be included in the report of the International Meeting.

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3. The panel covered three main topics, including economic, vulnerability, trade issues as they relate to small island developing States and the institutional responses to address these challenges. The panel recommended actions for further consideration.

Economic vulnerability issues

4. Small island developing States have open, small-scale economies with limited resources, and are highly dependent on external markets and resources. In addition, they suffer from many structural and competitive disadvantages. Most small island developing States specialize in a narrow range of products and have a limited domestic market. Several are single commodity exporters and rely heavily on export earnings. This external dependence increases their vulnerability to external economic threats and shocks. There was an urgent call by participants for action to avoid further marginalization of small island developing States.

5. It was noted that issues of diseconomies of scale are directly related to high-unit costs of producing goods and services, which result in non-competitive prices. This is exacerbated by high transportation costs due to the geographical remoteness of small island developing States. In addition, small island developing States commonly have difficulties to access capital, including from multilateral financial institutions. Globalization has further marginalized small island developing States in the global market.

6. Several speakers emphasized that the current rule for graduation from least developed country status, an issue of critical importance to small island developing States, requires re-examination. Small island developing States that would graduate from least developed country status would become, in a relatively short time, ineligible for concessionary or preferential treatment, which would severely restrict their ability to recover, for example, from natural disasters and economic shocks to which they are particularly vulnerable. This issue was illustrated by the example of Maldives, which recently faced the consequences of a tsunami disaster. Special support measures would be necessary to allow small island developing States to adapt to the circumstances that would follow graduation.

Trade-related issues

7. Participants noted that consideration of small island developing States is a relatively new feature in international trade negotiations. It was stressed that the rule-based multilateral trading system ought to take into consideration the special economic disadvantages of small island developing States. The latter are often weak trading partners and face serious difficulties in competing in international trade. The European Union trading system was cited as a successful model with regard to granting special and differential treatment to weaker and smaller economies. This has allowed such countries as Greece and Portugal to make structural adjustment to the global economy and fully integrate into the multilateral trading system.

8. Future trade negotiations should make the multilateral trading system more equitable through recognition of the particular disadvantages of small island developing States. This would allow small island developing States to engage on a more equal footing in international trade, gain more secure access to external markets and participate as equal partners in WTO negotiations. Mauritius illustrated the need for a preferential and differentiated treatment of small island developing

States that export commodities. The example of the recent EU reform concerning sugar was cited. That reform brought down the prices of sugar by about 37 per cent, and could lead to the demise of the sugar sector in Mauritius.

9. It was noted that international trade negotiations in WTO are pursued under the Doha development agenda, which includes specific provisions concerning trade-related issues relevant to small and vulnerable economies. It was also noted that negotiations, particularly those relating to the preferential treatment of small island developing States, access to markets and agricultural subsidies, have not advanced in the manner that was hoped for at the time of the adoption of the Doha ministerial declaration in 2001.

Institutional responses to relevant issues

10. Participants generally took the view that small island developing States will not be able to build economic resilience and competitive economies without the support of their development partners. Increased aid flows from bilateral development partners and multilateral financial institutions are essential for enhancing resilience capacities. There is also a need to intensify economic cooperation within small island developing States regions, including through the pooling of resources. United Nations agencies should continue to help in this regard.

11. Institutional capacity-building is of critical importance to small island developing States. Several small island developing States have made strides in developing their capacity to trade, but economic vulnerabilities remain high and special efforts should be made by the international community to strengthen the resilience of these countries. It is important to identify practical ways for capacity-building and regional approaches and strategies for supporting the economic development of small island developing States, with the assistance of international development partners.

12. The complexity of trade negotiations and the related challenges faced by small island developing States justify the efforts to develop the negotiating capacities of small island developing States. They also imply innovative approaches on the part of small island developing States. It was noted that the fear that a special treatment of small island developing States might undermine the multilateral trading system was unfounded.

Recommended actions for further consideration

- Assist small island developing States in enhancing their competitiveness in international markets.
- Ensure that the rule-based multilateral trading system properly takes into consideration the economic vulnerabilities of small island developing States.
- Implement the provisions of the Doha ministerial declaration that are relevant to the differential and preferential treatment of small island developing States, particularly those regarding access to external markets.
- Set up innovative financial mechanisms to respond to the structural disadvantages of small island developing States.
- Improve the capacity of small island developing States to effectively participate in WTO negotiations.

- Strengthen the institutional capacities of small island developing States, including their capacity to develop trade-related policies and relevant regulatory measures.
- Make success stories of small island developing States in economic development and capacity-building available for learning purposes.
- Strengthen South-South cooperation relevant to small island developing States through regional entities, with the support of developed countries and international organizations.
- Re-examine the rule for graduation from least developed country status in the light of the special vulnerabilities of small island developing States.
- Increase the scope for acceptance of small island developing States as a case for special treatment in WTO.
- Invite relevant United Nations bodies to give the United Nations list of small island developing States formal status for the purposes of special treatment.